

File Reference: MA/2/1/4C (2022)

LEGISLATIVE COUNCIL BRIEF

Inland Revenue Ordinance
(Chapter 112)

EXEMPTION FROM PROFITS TAX (SHENZHEN MUNICIPAL PEOPLE'S GOVERNMENT DEBT INSTRUMENT) ORDER

INTRODUCTION

At the meeting of the Executive Council on 4 January 2022, the Executive Council ADVISED and the Chief Executive ORDERED that the Exemption from Profits Tax (Shenzhen Municipal People's Government Debt Instrument) Order ("the Exemption Order") at **Annex** should be made under section 87 of the Inland Revenue Ordinance (Cap. 112) ("IRO") to exempt a person from the payment of profits tax chargeable under Part 4 of the IRO in respect of sums received by, or accrued to, the person as interest paid or payable on, or profits on the sale or other disposal or on the redemption on maturity or presentment of, debt instruments issued in Hong Kong by the Shenzhen Municipal People's Government ("SZG").

JUSTIFICATIONS

2. SZG issued offshore Renminbi ("RMB") municipal people's government bonds, in two-year, three-year and five-year tenors, totalling RMB5 billion in Hong Kong in October 2021. The three-year and five-year bonds were green bonds. It was the first municipal people's government bond issuance in Hong Kong, and marked another milestone in the development of financial services in Hong Kong through increasing the breadth and depth of our RMB debt market.

3. Following the annual sovereign bond issuance by the Central People's Government ("CPG") in Hong Kong since 2009 and the issuance of debt instruments by the People's Bank of China ("PBoC") since 2018, the issuance of SZG debt instruments in Hong Kong would provide another investment option for local and international investors to cater for their demand for RMB assets, expand the base of investors, enrich further the range of RMB financial products available in Hong Kong market, promote the internationalisation of RMB and strengthen Hong Kong's status as the global offshore RMB business hub, as supported by the "Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035".

4. Currently, interest paid or payable on, or profits on the sale or other disposal or on the redemption on maturity or presentment of, RMB and non-RMB sovereign bonds issued in Hong Kong by the CPG and debt instruments issued in Hong Kong by PBoC are exempt from profits tax pursuant to the Exemption from Profits Tax (Renminbi Sovereign Bonds) Order, Exemption from Profits Tax (Non-Renminbi Sovereign Bonds) Order and Exemption from Profits Tax (People's Bank of China Debt Instrument) Order made by the Chief Executive in Council in 2009, 2017 and 2018 respectively under section 87 of the IRO. In line with our policy objective to promote Hong Kong's premier financing platform and sophisticated professional services for the issuance of bonds and debt instruments, we consider it appropriate to grant profits tax exemption in respect of debt instruments issued in Hong Kong by SZG by the Exemption Order.

5. The Exemption Order will cover debt instruments in all currencies to allow flexibility for SZG's future issuances of different types of debt instruments in Hong Kong. The profits tax exemption will help consolidate Hong Kong's position as an international bond centre in Asia and facilitate other municipal or provincial people's governments to issue debt instruments in Hong Kong in future regardless of the currencies denominated, subject to the authorisation by the Central Government. This will be conducive to promoting Hong Kong's role as the gateway between the Mainland and international markets. In addition, more issuances of green debt instruments in Hong Kong by SZG will be

encouraged by the profits tax exemption, thereby attracting more Mainland entities to make use of our platform for green and sustainable financing, investment and certification, thus contributing to the CPG’s target of having carbon dioxide emissions peak before 2030 and achieving carbon neutrality before 2060.

6. On the whole, the profits tax exemption will promote the competitiveness and attractiveness of Hong Kong as the preferred location for issuance of debt instruments by SZG (and potentially other municipal or provincial people’s governments) on an on-going and regular basis, thereby showcasing our premier platform to facilitate the Mainland to “go global”, our role as a green and sustainable finance hub and a testing ground for national policy measures to internationalise RMB.

THE EXEMPTION ORDER

7. Section 87 of the IRO provides that the Chief Executive in Council may by order exempt any person, office or institution from payment of the whole or any portion of any tax chargeable under the IRO.

8. The Exemption Order covers debt instruments issued in Hong Kong by SZG such that future issuance of debt instruments in addition to bonds in Hong Kong by SZG will also be covered. As SZG issued bonds in Hong Kong in October 2021 (falling within the year of assessment 2021/22), the Exemption Order shall apply to profits tax chargeable for any year of assessment commencing on or after 1 April 2021.

LEGISLATIVE TIMETABLE

9. The legislative timetable is as follows –

Publication in the Gazette	21 January 2022
Tabling at the Legislative Council (“LegCo”)	26 January 2022
Commencement date	31 March 2022

IMPLICATIONS OF THE PROPOSAL

10. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. It will not affect the binding effect of the existing provisions of the IRO. There are no productivity, environmental, family, gender and civil service implications. Apart from the economic and financial implications set out in paragraphs 11 and 12 below, there are no other sustainability implications.

11. On economic implications, the Exemption Order will facilitate SZG's issuance of debt instruments in Hong Kong and is conducive to the further development of our offshore RMB business and debt market. It will also help strengthen financial cooperation between the Mainland market and Hong Kong, thereby strengthening our position as an international financial centre.

12. On financial implications, on the basis that the coupon rates for the RMB1.1 billion 2-year bonds, RMB1.5 billion 3-year bonds and RMB2.4 billion 5-year bonds are 2.6%, 2.7% and 2.9% respectively, the amount of tax foregone in respect of the bonds issued by SZG in Hong Kong in October 2021 and, following the implementation of the Exemption Order, would be around HK\$102.5 million in total for the years of assessment concerned. The above estimation only includes profits arising from interest payment. No revenue forgone could be projected for profits on the sale, other disposal, and redemption on maturity or presentation of the bonds as there is no basis to make such projection. The revenue implications of any future issuances of debt instruments by SZG can only be assessed when the scale and yields of such issuances are available.

PUBLIC CONSULTATION

13. In the Government's press release on 24 September 2021 welcoming SZG's issuance of bonds in Hong Kong, we mentioned that we plan to exempt the payment of profits tax in respect of interest paid or profit

received arising from the debt instruments issued in Hong Kong by SZG. We will also issue an information note to the LegCo Panel on Financial Affairs on 26 January 2022.

PUBLICITY

14. We shall arrange a spokesperson to deal with press enquiries on the Exemption Order.

BACKGROUND

15. On 18 October 2020, the National Development and Reform Commission announced an implementation plan for comprehensive pilot reforms in Shenzhen to build it into a pilot demonstration zone of socialism with Chinese characteristics (2020-2025). Among the authorised measures, Shenzhen was allowed to issue offshore RMB municipal people's government bonds outside the Mainland.

16. SZG subsequently issued its first RMB bonds in Hong Kong in October 2021 through the Central Moneymarkets Unit's platform operated by the Hong Kong Monetary Authority, and listed the bonds on the Hong Kong Stock Exchange.

ENQUIRIES

17. Enquiries on this brief may be directed to Ms Candy Lau, Principal Assistant Secretary for Financial Services and the Treasury (Financial Services), at 2810 2150.

Financial Services and the Treasury Bureau
21 January 2022

Exemption from Profits Tax (Shenzhen Municipal People's Government Debt Instrument) Order

(Made by the Chief Executive in Council under section 87 of the Inland Revenue Ordinance (Cap. 112))

1. Commencement

This Order comes into operation on 31 March 2022.

2. Interpretation

In this Order—

Shenzhen MPG debt instrument (深圳政府債務票據) means a debt instrument issued in Hong Kong by the Shenzhen Municipal People's Government.

3. Exemption

- (1) A person is exempt from the payment of profits tax chargeable under Part 4 of the Ordinance in respect of sums received by, or accrued to, the person as—
 - (a) interest paid or payable on a Shenzhen MPG debt instrument;
 - (b) profits on the sale, or other disposal, of a Shenzhen MPG debt instrument; or
 - (c) profits on the redemption, on maturity or presentment, of a Shenzhen MPG debt instrument.
- (2) This section applies in relation to profits tax chargeable for any year of assessment commencing on or after 1 April 2021.

Clerk to the Executive Council

COUNCIL CHAMBER

2022

Exemption from Profits Tax (Shenzhen Municipal People's Government Debt
Instrument) Order

Explanatory Note
Paragraph 1

3

Explanatory Note

This Order exempts a person from the payment of profits tax chargeable under Part 4 of the Inland Revenue Ordinance (Cap. 112) in respect of sums received by, or accrued to, the person as interest or profits arising from a debt instrument issued in Hong Kong by the Shenzhen Municipal People's Government.